

Message Text

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TAGS: MASS, EG, US

SUBJECT: ECONOMIC IMPACT STATEMENT ON SALE OF F-5E'S TO
EGYPT

1. THE FOLLOWING IS TEXT OF ECONOMIC IMPACT STATEMENT
PREPARED IN CONJUNCTION WITH PROPOSAL TO SELL F-5E'S TO
EGYPT:

2. UNDER TERMS OF A PRESIDENTIAL DETERMINATION (PD) OF
AUGUST 1, 1977, EGYPT WAS GRANTED FMS ELIGIBILITY. SALES
SUBSEQUENT TO THIS PD (AS WELL AS THOSE UNDER AN EARLIER
LIMITED PD SIGNED BY PRESIDENT FORD) HAVE BEEN ON A CASH
PAYMENT BASIS. IN ALL CASES, FUNDING CAME FROM NON-
EGYPTIAN, ARAB SOURCES.

3. HIGH RANKING GOE OFFICIALS REPEATEDLY HAVE STATED THAT
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THE SAUDI ARABIAN GOVERNMENT HAS AGREED TO FINANCE EGYPTIAN
DEFENSE PURCHASES FOR A PERIOD OF FIVE YEARS. IT IS
OUR UNDERSTANDING THAT PURCHASES SO FUNDED ARE SUBJECT TO
CAREFUL REVIEW BY THE SAUDIS ON A CASE-BY-CASE BASIS.
ONCE THE SAUDIS AGREE TO A SPECIFIC PURCHASE, PAYMENT IS
DIRECT; THIS PAYMENT TRADITIONALLY HAS COVERED ANCILLARY
COSTS SUCH AS TRAINING AND SPARE PARTS.

4. THE PROPOSED SALE OF F-5E'S WILL BE ON A CASH SALE BASIS. BASED ON INFORMAL DISCUSSIONS WITH THE GOE, WE ANTICIPATE THAT THE PROGRAM WILL BE FUNDED BY THIRD COUNTRY ARAB GOVERNMENTS. ACCORDINGLY, THERE WOULD BE A MINIMAL IMPACT ON THE EGYPTIAN ECONOMY SINCE PAYMENT WOULD BE MADE FROM NON-EGYPTIAN SOURCES. LOCAL COSTS TO BE BORNE BY THE EGYPTIAN GOVERNMENT WOULD INCLUDE ANY RESTRUCTURING OF ARMED FORCES (WHICH WOULD BE MODEST IN ANY CASE) AND, POSSIBLY, INFRASTRUCTURE ITEMS (E.G. F-5-PECULIAR MAINTENANCE FACILITIES, ETC.). IN BOTH INSTANCES, THE COSTS COULD BE ABSORBED WITHOUT DIFFICULTY IN THE EXISTING GOE DEFENSE BUDGET (CURRENTLY 25 OF GOE EXPENDITURES). SINCE MOST (IF NOT ALL) OF THESE GOE EXPENDITURES WOULD BE IN LOCAL CURRENCY, THERE WOULD BE NO EFFECT ON THE EGYPTIAN BALANCE-OF-PAYMENTS OR FOREIGN EXCHANGE POSITIONS. FURTHERMORE, WE DO NOT ANTICIPATE THAT THESE COSTS WOULD BE SUBSTANTIAL AND, THEREFORE, WOULD BE COVERED BY NORMAL EGYPTIAN BUDGETARY RESOURCES.

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